OFFICE OF FINANCIAL & PROGRAM AUDIT

January 2011

Quarterly Report

FAIRFAX COUNTY BOARD OF SUPERVISORS
AUDITOR OF THE BOARD

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Office of Financial & Program Audit

QUARTERLY REPORT

EXECUTIVE SUMMARY

Dulles Metrorail Project

The Office of Financial and Program Audit (OFPA) continues to monitor Phase I of the Project and has categorized the risk factors as project costs and start of revenue service. The audit committee requested that OFPA add Phase II to the study. Since the cost estimates for Phase II are not official, it is not addressed in detail in this quarter's report. The Phase I Design Build Contract has recorded change orders of less than 1% of the contract amount, with 33% of the contracted amount expended. MWAA assesses this main construction component of the Project as 23% complete. Utility Relocation has recorded change orders of 17.46% of the contract amount. MWAA assesses the relocation activity as 99% complete. Approximately 40% of the Project's $297.7 million contingency funds have been committed.

Dulles Toll Road Revenues

Dulles toll road revenues represent the most significant funding source for the Dulles Metrorail project. More than half of the project's Phase I and Phase II costs will be supported through long-term debt obligations, backed by revenues generated from the Dulles Toll Road. The traffic and revenue study commissioned to determine the toll rates required for the debt issued through the Series 2010 Bonds have been updated as of April 2010. Adjusted for the significant 2009/2010 snows, the revenue forecasts are supported by actual transaction experience. New traffic, toll, and revenue estimates will be required once the cost estimates for Phase II are finalized and a financing plan developed.

Wireless Facility Leases on County-Owned Property (Monopoles)

There is a lack of available market information with which to independently evaluate wireless antenna lease revenue. Using what data is available, County lease revenue is in line with the experience of other Northern Virginia governments. The Fairfax County Facilities Management Department has agreed to the study recommendations, which are aimed at obtaining and utilizing true market information.

Reserves Review

Timely and accurate information regarding the County's reserves is a critical component of the budget planning process. In fiscal year 2010, the county designated a portion of its available financial resources for revenue stabilization, budget shortfalls, landfill closure costs, and solid waste disposal. However, we noted a lack of consistency in the reporting of landfill and solid waste reserves, which totaled $52 million and $33 million respectively in fiscal year 2010. Newly implemented financial reporting standards will require governments to provide more transparency in the reporting of reserves. To help ensure more transparency and flexibility in the budget process, the County should continue efforts to improve the reporting of its reserves through the implementation of the new reserve reporting standards.

Overtime Review

The report this quarter focused on overtime polices and controls within Police, Fire and Rescue as well as Public Safety Communications. From CY 2007 to CY 2009, Fairfax County reduced overtime expenses by $20.3 million. An examination of the policies and controls within these departments demonstrates a continued effort to manage this expense category. The management of the overtime expense has been providing an opportunity to capture savings during the current recession to support future year budgets.

Fleet Services

Studies of the accountability of mechanic's time and utilization of vehicle warrantees show that the Department of Vehicle Services is using effective management practices in both areas.

Bail Violations

An investigation of the County's experience in the collection of forfeited bail bonds showed that the structure of the process allowed little opportunity for non-payment. In the very few instances of initial non-payment, very effective collection measures ensured eventual compliance.

STUDY BRIEFINGS

DULLES METRORAIL PROJECT

The Audit Committee requested OFPA to monitor the Dulles Corridor Metrorail Project (Project) with a focus on the project costs and project timeframes. OFPA has recognized three potential risk factors that warrant continued monitoring: 1) Project Cost Experience, 2) Start of Revenue Service (Schedule), and 3) Phase II Cost Estimates.

I. Project Cost Experience

A. Change Orders

The MWAA report divides change orders into two broad categories: (1) Amended and Restated Design Build (contract), and (2) Utility Relocation. Through October 2010, there were $16.6 million in total changes to the Amended and Restated category, which represents less than 1% of the original total contract amount. This is also a net reduction of approximately $230,000 from the last quarterly report.

There have been $22.5 million in total changes to the Utility Relocation category, which represents 17.46% of the total original contract amount. In discussions during the last quarter the MWAA Project Team had anticipated no additional significant change orders. Change orders for this category only increased .04% from last quarter. This Project phase reaching 99% completion without significant additional change orders is supporting the MWAA prediction.

The following table presents summary information regarding the change orders, a comparison between full funding and expenditures to date, and the critical path timeline. At the Audit Committee's request, the table was expanded to include a percent complete of the total project and to show changes based on the current cost estimate to completion. Continuing the preparation of this summary will enable the Committee to easily assess the month-to-month changes in these areas. As the table has grown, starting with this report, we will present the information from the last three MWAA Monthly Progress Reports. The complete schedule, which goes back to April of 2010 will be provided upon request and posted on the OFPA web site, once that capability is finalized.

Summary of Dulles Metrorail Change Orders and Schedule Revisions

	August 2010	September 2010	October 2010
Amended and Restated Design Build Change Orders			
Design Build, w/Highways (original)	$ 1,712,504,538	$ 1,712,504,538	$ 1,712,504,538
Design Build, w/Highways (est. at completion)	$ 1,767,701,018	$ 1,799,215,268	$ 1,799,826,557
Monthly Changes $	$ -	$ (234,454)	$ -
Change to Date $	$ 16,893,954	$ 16,661,500	$ 16,661,500
Expended to Date	$ 492,546,392	$ 531,252,425	$ 570,435,266
Spend Down % of Original Contract	28.76%	31.02%	33.31%
Spend Down % of Estimate at Completion	27.86%	29.53%	31.69%
Monthly Changes % of Original Contract	0.00%	-0.01%	0.00%
Changes to Date % of Original Contract	0.99%	0.97%	0.97%
MWAA Stated % Complete	19%	21%	23%
Utility Relocation Change Orders			
Utility Relocation Contract (original)	$ 129,016,151	$ 129,016,151	$ 129,016,151
Utility Relocation Contract (est. at completion)	$ 155,624,194	$ 166,681,269	$ 166,462,269
Monthly Changes $	$ -	$ 47,340	$ -
Change to Date $	$ 22,476,314	$ 22,523,654	$ 22,523,654
Expended to Date	$ 132,295,825	$ 133,288,224	$ 140,096,686
Spend Down % of Original Contract	102.54%	103.31%	108.59%
Spend Down % of Estimate at Completion	85.01%	79.97%	84.16%
Monthly Changes % of Original Contract	0.00%	0.04%	0.00%
Changes to Date % of Original Contract	17.42%	17.46%	17.46%
MWAA Stated % Complete	97%	98%	99%
FFGA (Estimate to Complete)			
Right of Way	$ 70,207,407	$ 70,207,408	$ 67,795,262
WMATA; Vehicles, Procurement & Proj Mgmt	$ 271,635,628	$ 271,635,628	$ 271,635,628
Preliminary Engineering	$ 100,730,999	$ 100,730,999	$ 100,730,999
MWAA; Proj Mgmt Support & Gen Conditions	$ 143,820,859	$ 144,185,859	$ 144,973,859
FFGA Contingency	$ 224,726,154	$ 177,578,213	$ 176,760,934
FFGA Finance Cost	$ 509,984,571	$ 509,984,571	$ 509,984,571
Original Amount	$ 1,364,904,075	$ 1,364,904,075	$ 1,364,904,075
Estimate at Completion	$ 1,321,105,618	$ 1,274,322,678	$ 1,271,881,253
Expended to Date	$ 258,358,490	$ 262,580,928	$ 283,904,978
Spend Down % of Original Contract	18.93%	19.24%	20.80%
Spend Down % of Est. at Completion	19.56%	20.61%	22.32%
Interrelated Hwy (Estimates to Complete)			
Right of Way	$ 17,487,733	$ 17,487,733	$ 19,899,879
MWAA; General Conditions	$ 1,415,256	$ 1,415,256	$ 1,415,256
Contingency	$ 2,346,043	$ 6,557,658	$ 6,194,647
Original Amount	$ 59,255,098	$ 59,255,098	$ 59,255,098
Estimate at Completion	$ 21,249,032	$ 25,460,647	$ 27,509,782
Expended to Date	$ 16,028,087	$ 16,035,686	$ 16,538,573
Spend Down % of Original Contract	27.05%	27.06%	27.91%
Spend Down % of Est. At Completion	75.43%	62.98%	60.12%
Monthly Cost Report			
Full Funding Grant Agreement	$ 3,265,679,863	$ 3,265,679,863	$ 3,265,679,863
Expenditure to Date	$ 899,228,794	$ 943,157,263	$ 1,011,065,503
Estimate to Complete	$ 2,366,451,069	$ 2,322,522,600	$ 2,254,614,359
Estimate at Completion	$ 3,265,679,863	$ 3,265,679,863	$ 3,265,679,863
Percent Expended	27.54%	28.88%	30.96%
Critical Path Timeline			
Variance from Baseline	-98	-98	-97
Baseline Start of Revenue Service	December 4, 2013	December 4, 2013	December 4, 2013
Updated Start of Revenue Service	March 12, 2014	March 12, 2014	March 11, 2014

Source: MWAA Monthly Progress Reports from August 2010 through October 2010.

B. Cost Contingency Use

The tracking of contingency fund use is helpful in monitoring the progression of a project and its financial commitments. Phase I of the project is broken down into 10 project phases, each with its own contingency fund, as noted in the table below:

PROJECT MILESTONES	PHASE	START DATE	FINISH DATE	PHASE ALLOTMENT (millions)	CONTINGENCY (millions)
FFGA	1	2008 3rd Quarter	2009 1st Quarter	$ 59	$ 297
Station Design Complete	2	2009 1st Quarter	2009 3rd Quarter	$ 40	$ 238
Utility Relocation Complete	3	2009 3rd Quarter	2010 1st Quarter	$ 40	$ 199
Aerial and Station Foundations Complete	4	2010 1st Quarter	2010 3rd Quarter	$ 23	$ 158
NATM Tunnel Mined	5	2010 3rd Quarter	2011 1st Quarter	$ 38	$ 135
K-Line Tie-In Complete	6	2011 1st Quarter	2011 3rd Quarter	$ 19	$ 97
Guideway Complete	7	2011 3rd Quarter	2012 3rd Quarter	$ 19	$ 79
Train Control Complete	8	2012 3rd Quarter	2013 2nd Quarter	$ 17	$ 60
Substantial Completion	9	2013 2nd Quarter	2013 4th Quarter	$ 8	$ 43
Revenue Operations Date	10	2013 4th Quarter	2014 4rd Quarter	$ 35	$ 35

Source: MWAA progress report for October 2010 (Table 16).

Contingency funds are classified as federal and non-federal and are tracked separately by MWAA. In the event there is unspent contingency funds in one project phase, those funds are moved to the Project's contingency reserve account. Any positive amount in that reserve account is used prior to the contingency allocation for the next project phase. As shown in the table below, the contingency funds had a starting balance of $297.7 million. Through project phases 1 to 3, $92.7 million has been utilized.

CONTIN. PHASE #	CONTIN. RESERVE	DESCRIPTION	PHASE AUTHORIZATION	CONTINGENCY RESERVE	UTILIZED	REMAINING
1		FFGA	59,000,000		22,179,347	36,820,653
2	1R	Contingency Reserve From Phase 1		36,820,653	36,820,653	0
		Station Design Complete (Note 1)	40,000,000		4,429,829	35,570,171
3	2R	Contingency Reserve From Phase 2		35,570,171	*29,352,158*	*6,218,013*
		Utility Relocation Complete	40,000,000			40,000,000
4		Aerial and Station Foundations Complete	23,000,000			
5		NATM Tunnel Mined	38,000,000			
6		K-Line Tie-In Complete	19,000,000			
7		Guideway Complete	19,000,000			
8		Train Control Complete	17,000,000			
9		Substantial Completion	8,000,000			
10		Revenue Operations Date	34,762,579			
		TOTAL	$ 297,762,579		*$ 92,781,986*	*$ 204,980,593*

Source: MWAA progress report for October 2010 (Table 17).
Note 1: This amount is subject to adjustment pending the Airports Authority's decision on the FTA directive to fund the costs associated with reintroduction of non-federal funding.

It is important to note from the table that the contingency utilization was not established on a linear basis. Meaning earlier project phases are allocated a greater percentage of the contingency than the latter stages.

An additional $28.2 million of Federal Contingency has been obligated for project phases 4 through 10. Since those obligations have not been utilized they are detailed outside of the above MWAA table in their monthly report. To summarize the status of the Federal Contingency, of the original $297.7 million in contingency, $121 million has been utilized/obligated – leaving a balance of $176.7 million still available through October 2010, or just under 60% of the original allocation.

C. Fairfax County Funding Obligations

Based on the funding agreement, Fairfax County is obligated to pay 16.1% of the total project costs. If Fairfax County decides not to proceed with Phase II of the project, the obligations would be for 16.1% of the final cost for Phase I. Phase I of the project is still tracking to the original estimates, the Phase I activities will continue in 2011 through at least the early part of 2014. Over the next 12 to 18 months, as significant project phases are completed, the ability of MWAA to complete the Phase I - Design Build contract within budget will become apparent.

D. Commodities Pricing Structure (Phase I Contract)

The Audit Committee asked how the pricing adjustments for construction material were addressed in the Phase I contract. The MWAA contract with Dulles Transit Partners (DTP) calls for construction material costs to be associated with the Producer Price Index (PPI) published by the U.S. Department of Labor, Bureau of Labor Statistics (BLS). The contract stipulates a base period (effectively November 2006 through January 2007) and from that point market prices for the construction material are adjusted on a quarterly fiscal basis. Price adjustments can be positive, negative or no change. Used accurately and with proper invoice verification of the complex pricing adjustments – this contract stipulation will ensure the Project is getting near current market prices for the construction materials.

The general classifications of the materials selected for this pricing methodology are:

- Concrete (ready mix)
- Rebar (in various forms, grades and sizes)
- Precast Concrete
- Precast Concrete Pipe
- Steel (includes numerous types as well as forms from pipe to sheeting and scaffolding)
- Asphalt and Paving
- Diesel and Gasoline Fuels

E. Staffing Levels

As with almost any project, staffing is a major cost factor and indicator of project activity. We noted that the staffing levels for all project participants were at or very close to estimates with the exception of DTP. Since the fourth quarter of 2009, DTP staffing has exceeded estimates by 66 to 270 full time equivalents (FTE). This is an increase of 7% to 21% above the originally planned projections for DTP.

The MWAA monthly reports note that DTP was accelerating hiring and shifting the workforce to address project needs. These shifts included accelerating different project tasks to limit idle time or take advantage of favorable conditions. OFPA asked MWAA if this staffing differential was considered customary or if it presented a future cost concern. The MWAA response was that DTP was on a fixed price contract and therefore could shift and accelerate resources within their contract amount without concern for cost escalation.

II. Start of Revenue Service for Phase I

This section discusses areas that present a potential risk to the start of revenue service, exclusive of overall construction and engineering risks.

A. Overall Project Schedule

The MWAA report for October projects the start of revenue service as March 11, 2014. This is a 97 day delay from the original projected start date of December 4, 2013. According to the Fairfax County Dulles Metro Project Manager, the severe weather in early 2010 created delays in the project schedule as utility companies removed crews to restore power to homes and businesses. MWAA and Dulles Transit Partners (DTP) are working together to identify a strategy to reduce the delay time. Therefore, MWAA has not changed the official projected start date from December 2013. The project is still in its early stages and the expectation is that opportunities will occur to regain this time. The July through October MWAA Monthly Progress Reports note that recovery schedule discussions between MWAA and DTP have been on-going.

B. West Falls Church Yard

The West Falls Church Yard (WFC) was removed from the project critical path in the MWAA June report. The October MWAA report contains a fuller and updated discussion of the WFC Yard situation. MWAA has not accepted the DTP plans for the WFC Yard as it contains a completion date of January 23, 2014. The Project Team's analysis is that the Yard can be completed by the original scheduled date of July 31, 2013. Maintaining the original completion date would remove any impact on the start of revenue operations. DTP was expected to resubmit the final design in November 2010. The risk assessment section of the MWAA report notes that the risk factors related to the WFC Yard cost may be decreasing while the risk factors related to schedule impact may be increasing.

C. Rail Car - Capacity, Delivery and Testing

MWAA and WMATA face challenges in having the new rail cars delivered to the Silver Line with significant lead time to allow for full operational testing and deployment on the new (Phase I) rail line. The procurement cycle has been completed for the rail cars and did incur cost overruns. MWAA and WMATA have been exploring ways to mitigate the overruns. MWAA is removing Vehicle Procurement from their risk matrix. MWAA notes "As there is no specified cost penalty to the Project for failure to provide new cars for the Revenue Operations Date, the schedule risk *remains Unchanged since September as well*." (MWAA italics) MWAA further notes that having completed the procurement they will remove this risk from their tracking matrix.

OFPA requested assurance from WMATA that there was sufficient excess rail car capacity to meet Silver Line testing needs and start of revenue service if delivery of the new cars is delayed. WMATA has committed to MWAA that they will be able to support the Projects needs with existing rail cars if the supplier is unable to improve the delivery schedule.

The projected delivery schedule for the first rail cars (pilot set of four) is based on 30 months from the notice to the builder to start work. The notice to the contractor was sent on August 16, 2010. This results in the first rail cars arriving in approximately January of 2013 with the order being complete in the mid part of 2014.

III. Phase II

A. Phase II Costs

The cost estimates for Phase II are expected in late spring/early summer of 2011. Once the estimates are made official, Fairfax County will have 90 days to commit to proceeding with the second phase of the project. Under the terms of the existing funding agreement, the County will be obligated for 16.1% of the cost of the project net of any additional Federal or Commonwealth project funding.

Phase II costs will impact Fairfax County in two ways. The County's 16.1% share will change proportionate to any cost changes and Dulles Toll Road revenues will be required to fund the balance of any cost increases.

The Phase II cost estimates have risen from a 2009 preliminary estimate of $2.5 billion to a 2010 preliminary estimate of $3.8 billion. Much of this increase and public focus has been directed to the Dulles Airport station.

The Dulles Station placement is one of the major cost drivers for Phase II. The station placement was originally planned to be approximately 550 feet from the Dulles Airport terminal, and underground. Potential changes add an additional 600 feet to this distance making the total distance to the terminal 1,150 feet. These changes also include a proposed above ground (aerial) station to reduce costs. MWAA is considering alternative alignments, station locations and above/below ground approaches in an effort to obtain significant cost reductions.

B. Competitive Bid Process

The Phase II design/build contract will be placed out for competitive bidding. The Phase I contract was a design/build, but was not competitively bid.

DULLES TOLL ROAD REVENUES

I. Scope and Methodology

For this study, OFPA examined the following documents:

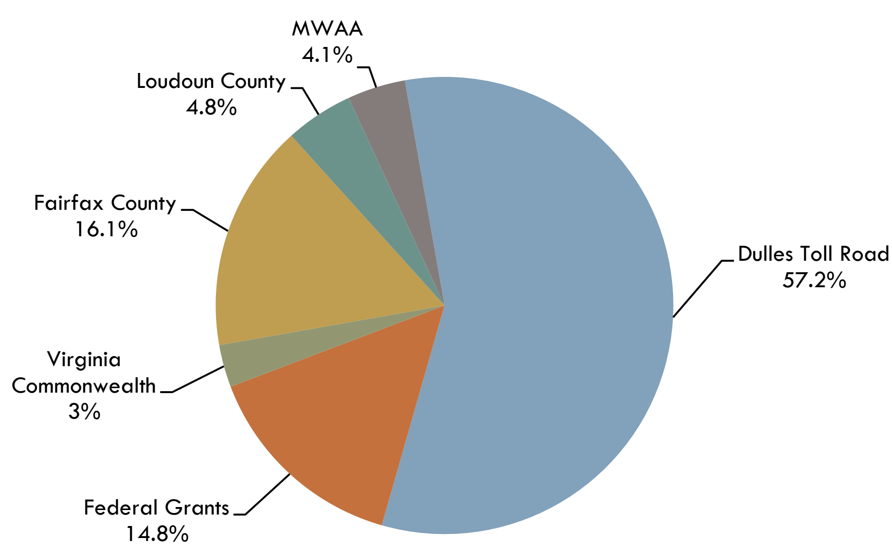
- Official Statements of the MWAA Series 2009 and 2010 revenue bonds.
- *Dulles Toll Road Traffic and Revenue Consulting Services Comprehensive Traffic and Revenue Study*, prepared for MWAA by Wilbur Smith Associates (WSA), as a supporting document for the revenue bonds.
- Supporting Analysis for the Dulles Toll Road (DTR) Corridor Growth Assessment prepared by Linden Street Associates for Wilbur Smith Associates dated March 2008
- Dulles Corridor Rapid Transit Project – Final Environmental Impact Statement (Ch. 6).
- Agreement to Fund the Capital Cost of Construction of Metrorail in the Dulles Corridor (2007).
- *Dulles Toll Road Proposed Toll Rate Increases, Report on Public Comments, October 2009*, recommendation paper to the Dulles Corridor and Finance Committees.
- Moody's Rating Summary for the Series 2010 revenue bonds, April 22, 2010.

OFPA staff also interviewed managers and staff from MWAA, Fairfax County, and the Council of Governments (COG).

II. Dulles Toll Road Revenues Support Dulles Corridor Metrorail Project Costs

Dulles Toll Road revenues represent the most significant funding source for the Dulles Metrorail project (Project). More than half of the project's currently estimated $6.5 billion in total costs will be supported through long-term debt obligations, which will be backed by revenues generated from the Dulles Toll Road (DTR). The remaining project costs will be supported by separate funding sources from five primary funding partners: (1) MWAA, (2) Fairfax County, (3) Loudoun County, (4) the Federal Transit Administration, and (5) the Commonwealth of Virginia. Under the current funding agreements, Fairfax County's financial responsibility is capped at 16.1% of total project costs. Similarly, Loudoun County and MWAA's (non-toll road) funding responsibilities are capped at 4.8% and 4.1%, respectively.

Allocation of Dulles Metrorail Total Project Costs by Funding Source



MWAA is responsible for operating the Dulles Toll Road and for managing the Dulles Metrorail project. Revenues generated from the Dulles Toll Road will need to sustain debt service payments until the debt is retired in 2047. As of January 2011, MWAA has issued over $1.3 billion in revenue bonds for the project. The debt service for these bonds will be paid from revenue generated from the Dulles Toll Road.

Revenue Bond Series	Moody's Rating	S&P Rating	Issued Amount
Series 2009 A	A2	A	$198,000,000
Series 2009 B, C & D	Baa1	BBB+	$765,291,649
Series 2010 A & B	Baa1	BBB+	$192,614,868
Series 2010 D	Baa2	BBB	$150,000,000
		TOTAL	**$1,305,906,517**

Note: The above ratings are the assigned ratings from Moody's and S&P. Any procurement of insurance would shift the rating basis to the claims paying ability of the insurance provider.

Credit rating agencies evaluated MWAA's revenue bonds and reviewed the adequacy of the financing plan and funding sources to cover debt service payments. The ratings assigned to the bonds are a reflection of the credit risks associated with the debt. For example, under Moody's credit rating scale, **Aaa** rated bonds are judged to be the highest quality with minimal credit risk. **Baa** rated bonds are considered medium-grade and may possess certain speculative characteristics. Moody's included the following assessments in its credit rating report for MWAA's 2010 revenue bonds:

Strengths

- *Dulles Toll Road is a mature commuter facility with a 26-year operating history that is being leveraged to finance costs of the Dulles Metrorail project. Traffic is approximately 73% commuter.*
- *Traffic and revenue projections are consistent with historical performance and adjust for the impact of toll increases and traffic diversion.*

Challenges

- *Plan of finance built on steady, albeit relatively moderate toll increases. Toll rates will remain significantly lower than Dulles Greenway (rated Baa3) which connects to Dulles Toll Road's western end.*
- *Potential for slower than forecasted traffic and revenue growth, though this is largely mitigated by a long track record of operation and relatively low toll rates through forecast period.*
- *Dulles Metrorail Project – Phase 2 project financing plan remains uncertain; engineering is not complete; a design-build contract is planned but not yet procured, and not all funding sources are irrevocably committed.*
- *Potential for Dulles Metrorail project construction cost overruns and additional debt supported by Dulles Toll Road revenues.*

Moody's also include the following statement in the "Outlook" section of the report:

- *Future credit reviews will focus on the adequacy of toll revenues to maintain forecasted debt service coverage ratios.*

MWAA plans to issue revenue bonds totaling $240 million in 2011 and $240 million in 2013 for Phase I and Phase II. Final Project financing plans will be developed with the firm cost estimates for Phase II, expected in the summer of 2011. Additional Dulles Toll Road revenues will be required to fund this finance plan, with any contributions from the Federal Government or Commonwealth potentially reducing the cost to the participants.

III. Planned Dulles Toll Road Rate Increases Will Impact Ridership and Revenues

MWAA has the exclusive right to establish, charge, and collect tolls and other user fees related to the Dulles Toll Road. MWAA is planning to steadily increase toll rates on the Dulles Toll Road to cover debt service payments for the revenue bonds which will be used to fund the project. According to MWAA, gross toll revenues will need to increase from $87 million in 2010 to $489 million in 2047 to cover debt service costs. MWAA's regulations require adherence to the following procedures prior to increasing or adjusting toll rates on the Dulles Toll Road:

- present proposed rate increases to the Dulles Corridor Advisory Committee prior to scheduling a public hearing;
- make the proposed amendment available for public inspection in its offices for at least ten days;
- publish a notice in a newspaper of general circulation in the District of Columbia and in the vicinity of the Dulles Toll Road that states its intention to adopt the proposed amendment and informs the public that it will hold a public hearing or hearings on the proposed amendment on a date or dates at least 10 days after the date of publication;
- conduct each public hearing on the date and at the time identified in the published notice and provide persons appearing at the hearing an opportunity to express their views on the proposed amendment; and,
- following the public hearing, after consideration of the views expressed during the public hearings and otherwise, take action on the proposed amendment.

To help determine the rate increases that will be necessary to cover current and future debt service payments, MWAA commissioned a traffic study from a private consulting firm. The traffic study included a comparison of toll rates in the region and analyzed the effect of increased toll rates on ridership (transactions). To provide context, MWAA's consultant compared the Dulles Toll Road's current and near future toll rates to similar roadways in the region:

Roadway	Toll for Full Length Trip	Length (miles)	Toll per Mile
Dulles Toll Road - 2010	1.75	13.4	0.13
Dulles Toll Road - 2011	2.00	13.4	0.15
Dulles Toll Road - 2012	2.25	13.4	0.17
Dulles Greenway - 2010 (off peak)	4.45	14	0.32
Dulles Greenway - 2010 (peak)	5.25	14	0.38
I-495 Capital Beltway HOT Lanes	6.00	14	0.43
Maryland InterCounty Connector	1.45	5.64	0.26

The consultant also estimated the impact of projected toll rate increases on total transactions and revenues:

Calendar Year	Main Plaza/ Ramp Tolls	Total Transactions	% Change Transactions	Total Revenue	% Change Revenue
2010	$1.00/$0.75	101,882,000		86,282,000	
2011	$1.25/$0.75	103,292,000	1.4%	97,128,000	12.6%
2012	$1.50/$0.75	103,389,000	0.1%	107,104,000	10.3%
2013	$1.75/$1.00	100,015,000	-3.3%	127,475,000	19.0%
2014	$2.00/$1.00	100,023,000	0.0%	136,426,000	7.0%
2015	$2.25/$1.00	100,042,000	0.0%	145,409,000	6.6%
2016	$2.50/$1.25	97,719,000	-2.3%	166,619,000	14.6%
2017	$2.50/$1.25	99,772,000	2.1%	170,118,000	2.1%
2018	$2.50/$1.25	101,867,000	2.1%	173,691,000	2.1%
2019	$3.25/$1.75	93,875,000	-7.8%	216,261,000	24.5%
2020	$3.25/$1.75	95,193,000	1.4%	219,897,000	1.7%
2021	$3.25/$1.75	96,781,000	1.7%	224,172,000	1.9%
2022	$3.25/$1.75	98,407,000	1.7%	228,559,000	2.0%
2023	$4.00/$2.25	93,224,000	-5.3%	271,436,000	18.8%
2024	$4.00/$2.25	94,700,000	1.6%	275,655,000	1.6%
2025	$4.00/$2.25	96,206,000	1.6%	279,957,000	1.6%
2026	$4.00/$2.25	97,742,000	1.6%	284,336,000	1.6%
2027	$4.00/$2.25	99,308,000	1.6%	288,801,000	1.6%
2028	$4.75/$2.75	94,848,000	-4.5%	331,455,000	14.8%
2029	$4.75/$2.75	95,376,000	0.6%	333,261,000	0.5%
2030	$4.75/$2.75	95,908,000	0.6%	335,081,000	0.5%
2031	$4.75/$2.75	96,442,000	0.6%	336,908,000	0.5%
2032	$4.75/$2.75	96,980,000	0.6%	338,747,000	0.5%
2033	$5.50/$3.25	93,621,000	-3.5%	382,248,000	12.8%
2034	$5.50/$3.25	94,144,000	0.6%	384,385,000	0.6%
2035	$5.50/$3.25	94,457,000	0.3%	385,661,000	0.3%
2036	$5.50/$3.25	94,770,000	0.3%	386,940,000	0.3%
2037	$5.50/$3.25	95,083,000	0.3%	388,219,000	0.3%
2038	$6.25/$3.75	92,537,000	-2.7%	432,419,000	11.4%
2039	$6.25/$3.75	92,844,000	0.3%	433,853,000	0.3%
2040	$6.25/$3.75	93,152,000	0.3%	435,292,000	0.3%
2041	$6.25/$3.75	93,461,000	0.3%	436,737,000	0.3%
2042	$6.25/$3.75	93,771,000	0.3%	438,178,000	0.3%
2043	$7.00/$4.25	91,706,000	-2.2%	482,643,000	10.1%
2044	$7.00/$4.25	92,012,000	0.3%	484,252,000	0.3%
2045	$7.00/$4.25	92,318,000	0.3%	485,865,000	0.3%
2046	$7.00/$4.25	92,626,000	0.3%	487,484,000	0.3%
2047	$7.00/$4.25	92,935,000	0.3%	489,109,000	0.3%

Source: *Dulles Toll Road Traffic and Revenue Consulting Services Comprehensive Traffic and Revenue Study* (Update Letter dated April 15, 2010), prepared for MWAA by Wilbur Smith Associates.

The traffic study indicated that toll road revenues would be adequate to meet debt service requirements for the 2009 and 2010 issued revenue bonds. However, we noted that the consultant's traffic study does not directly disclose reductions in transactions on the toll road related to the opening of the Dulles Metrorail Silver Line.

We believe that the transaction and revenue projections would be improved if the divergence of commuters from the toll road to the Dulles Metrorail were more fully disclosed in future traffic studies. The Dulles Corridor and Finance Committees held a series of public hearings in 2009 to solicit public opinion regarding the proposed toll rate increases. A majority of the people who provided comments during the comment period stated that they use the Dulles Toll Road and approximately half stated that they would use the Dulles Metrorail. This is important because an increase in Metrorail riders could decrease transactions and the associated toll road revenues on the toll road. The following table summarizes the comments by the respondents' locations.

	Do you use the Dulles Toll Road?		Will you use the Silver Line?		TOTAL	Do you use the Dulles Toll Road?	Will you use the Silver Line?
	Yes	No	Yes	No		Yes	Yes
Herndon	32	1	15	18	33	97%	45%
Reston	29	1	18	12	30	97%	60%
Ashburn	27	0	14	13	27	100%	52%
Sterling	15	0	8	7	15	100%	53%
McLean	13	0	4	9	13	100%	31%
Vienna	12	0	7	5	12	100%	58%
Chantilly	4	0	1	3	4	100%	25%
Leesburg	4	0	3	1	4	100%	75%
Purcellville	3	0	2	1	3	100%	67%
Silver Spring	3	0	0	3	3	100%	0%
Alexandria	3	0	2	1	3	100%	67%
Falls Church	3	0	1	2	3	100%	33%
Berryville	2	0	0	2	2	100%	0%
Arlington	2	0	2	0	2	100%	100%
Great Falls	2	0	0	2	2	100%	0%
Hamilton	2	0	2	0	2	100%	100%
Winchester	2	0	0	2	2	100%	0%
Other	22	1	12	11	23	96%	52%
TOTAL	**180**	**3**	**91**	**92**	**183**	**98%**	**50%**

Source: *Dulles Toll Road Proposed Toll Rate Increases, Report on Public Comments, October 2009*. The table above excludes incomplete or comment-only responses.

IV. Recommendation

The Board should consider encouraging MWAA to more fully disclose the potential divergence of commuters from the toll road to the Dulles Metrorail in any future toll road revenue and traffic studies. This will help refine revenue projections in future traffic studies that are used to support debt service payments.

WIRELESS FACILITY LEASES ON COUNTY-OWNED PROPERTY (MONOPOLES)

I. Scope and Methodology

The Audit Committee asked OFPA to study the revenue derived from private firms placing wireless facilities on county owned property. The committee was interested in knowing more about how county lease practices and revenues compare with industry standards.

For the purposes of this study, wireless facilities include antennas and the towers, monopoles and platforms which hold them. Additionally, related structures are also included such as cabinets and associated footings, electrical power as well as wired communication connections. This study includes these wireless facility connections either as standalone facilities, as in the case of a monopole, or facilities on existing structures as in the case of roof top or façade antennas. Leases for wireless facilities typically also include easements as well as access to and across county owned property.

Throughout this report we will use the words wireless facility and/or antenna to refer to equipment which handles cellular phone calls and data streams. We will use the term leases to cover agreements with lessees whether the legal form is actually a lease or license.

OFPA conducted interviews and examined information from industry experts and local government professionals. The government professionals were from Fairfax County, other Northern Virginia jurisdictions and the Federal Government's General Services Administration. Fairfax County government experts included staff from Facilities Management, the County Attorney's Office, Department of Planning and Zoning and the Planning Commission. The following also shared information for attribution in this study:

- Fairfax County Park Authority
- Fairfax County Public Schools
- Prince William County Government
- Prince William County Schools
- Prince William County Park Authority
- Arlington County Government (inclusive of Parks and Recreation)
- Arlington County Schools
- Federal Government - General Services Administration
- Robert H. Schwaninger, Jr. - Schwaninger & Associates, Inc. Annandale, VA
- Len Forkas, CEO - Milestone Communications, Reston VA
- George Condyles, President - The Atlantic Group of Companies, Mechanicsville, VA

It is important to note that none of the local government staff interviewed who conduct wireless lease negotiations with commercial parties were assigned to these tasks full time. Staff involved in these specialized and often time consuming preparations and negotiations fit this task in among a multitude of other varied duties.

II. General Observations

The following observations framed the evaluation of county lease practices and revenues:

- There is no broadly available source for market prices on wireless facility leases. The equivalent to the Multiple Listing Service for real estate does not exist and makes market analysis very difficult for leasing staff.
- All the government entities interviewed took a passive approach to leasing property and were not involved directly in the active marketing of publicly owned sites.
- Demand for wireless antennas is increasing. Most of the increase is related to growing demands to transmit/receive data (internet) services instead of cellular voice services.
- Filling the demand for data (internet) services does not necessitate the need for traditional towers and monopoles.
- Telecommunication carriers favor existing infrastructure – either an existing tower/pole or an existing building rooftop or façade.
- Industry experts note that the terms of the lease agreements are often more important than the negotiated rent amount.
- The wireless facility agreements with commercial parties are complex. Terms of the agreements cover the typical property leasing issues but must also cover:
    - Interference with government emergency and non-emergency communications
    - Access for maintenance and repairs, often involving facilities which are operational 24 hours, seven days a week.
    - Shared or separate electrical and backup power sources
    - In the case of some Public School systems, the background of the commercial employees.
- Industry experts note that speed of approval and negotiation processes is a very critical determinate when comparing the placement of equipment on private or public property.
- Auditing of existing equipment is important, in that wireless company maintenance and service personnel can easily expand antenna and related equipment without knowledge that such expansion is beyond the scope of the lease. Wireless maintenance and service departments do not always coordinate with their leasing staff. Lease terms can include specific requirements and rent increases for expansions.

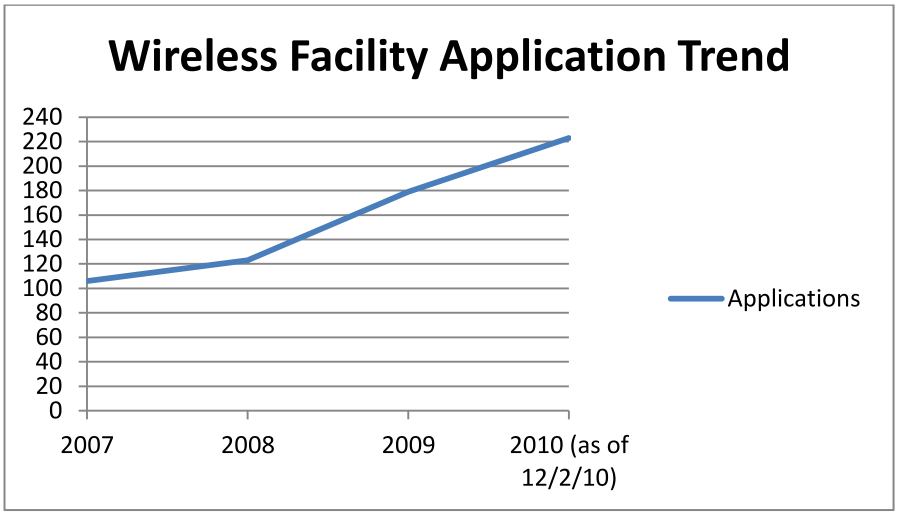
III. Market Demand

The Personal Communications Industry Association reports it is reasonable to expect the number of wireless sites in the United States to double or even triple over the next 5 to 10 years. As public facilities, proposed wireless facility sites are subject to the County's 2232[1] review process to determine if the proposed facility's location, character and extent are in accord with the County's Comprehensive Plan.

[1] Through Fairfax County's 2232 Review Process, the Fairfax County Planning Commission reviews public facility and utility proposals to determine if their general or approximate location, character and extent are substantially in accord with the Fairfax County Comprehensive Plan. The term "2232 Review" is derived from a Code of Virginia requirement under Section 15.2-2232. Fairfax County's 2232 Review Process applies to all public areas, public buildings or structures and public utility or public service corporation facilities, whether publicly or privately owned. Enlargements, changes of use, and other changes to public areas may also be subject to these provisions.

The number of 2232 requests processed by the county in the past two years supports this prediction with the number of requests increasing each year. In calendar year 2009, the total number of applications processed for telecommunications sites countywide (on both public and private property) was 179.

In calendar year 2010 (through December 2, 2010) the Department of Planning and Zoning processed 223 wireless telecommunication applications (this total includes applications that were approved, denied or withdrawn). Sixty-eight applications are pending at the time of this report. The completed applications alone for calendar year 2010 (as of December 2, 2010) represented a 25% increase over the previous year.



Of the 223 applications processed by the Department of Planning and Zoning in calendar year 2010 (as of December 2, 2010), 33 were approved by the Planning Commission on publicly owned property.

- Sixteen were on sites owned by Fairfax County Public Schools.
- Eleven were on sites owned by the Board of Supervisors.
- Six were on Fairfax County Park Authority sites.

The industry appetite for wireless sites has not diminished, but it is expected to change as technology changes. Many experts expect a shift away from the traditional tower structure. The shift will be toward antennas that are much more localized and handle data transmissions on a Wi-Fi basis, very similar to a home wireless router. (The industry term for this trend is Distributive Antenna Systems or DAS.)

While there is one land-use review process, there are 3 entities negotiating leases for sites on publicly owned property in Fairfax County. Each lease negotiating entity has customized their process to fit the needs of their specific organization. On land owned by the Board of Supervisors, the Facilities Management Department (FMD) manages the lease process. On land owned by the Park Authority, their Land Acquisition and Management Branch performs lease duties. And, for Fairfax County Public Schools their Department of Facilities and Transportation Services oversees the lease process.

The supply of existing infrastructure for wireless facilities is relatively strong in the county. More 2232 review applications are for features shown on existing structures than on requests for new infrastructure construction. This trend is illustrated with the approved applications for sites on publicly owned land in calendar year 2010. The following are the activity totals through December 2, 2010:

On land owned by the Board of Supervisors, 11 sites approved included the following application types:

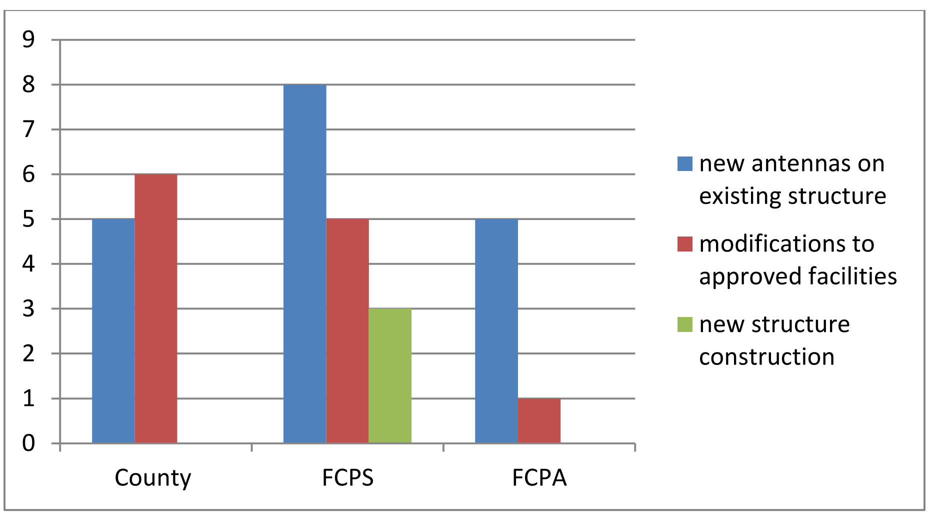
- 5 applications for new antennas and equipment on existing structures or buildings
- 6 modifications to existing facilities (i.e. Verizon or another carrier was modifying antennas and/or equipment at a site they were previously approved for)
- No new monopoles or towers were approved on property owned by the Board of Supervisors in calendar year 2010.

On land owned by the Fairfax County Public Schools, 16 sites approved included the following applications:

- 8 applications were for new antennas and equipment on existing structures
- 5 were modifications to existing facilities.
- 3 new monopole structures approved for School property as of 12/20/10.

On land owned by the Fairfax County Park Authority Property, 6 sites were approved:

- 5 applications were for new antennas and equipment on existing structures
- 1 modification to an existing facility
- There were no new monopole structures approved for Park Authority property.



OFPA conducted interviews with several industry experts in the course of this study. Trends noted by industry experts:

- Unlike land, building and equipment lease markets, there is very little openly available market information for wireless leases to use as a market comparison for negotiations.

- Typically a facilities manager would know the 'going rate' for a certain class of office space in a specific location. The rate would be adjusted according to any specifics negotiated in the lease (e.g. the inclusion of utilities). There is no body of wireless antenna market information readily available to the staff members charged with negotiating these leases.
- Consultants are available to handle various stages of lease development, such as; marketing, lease negotiations, management and auditing of antenna facilities.
- Carriers are seeking more and more sites to meet bandwidth demand related to data transfers (internet) rather than voice demand.
- The best way for carriers to now cover markets like Fairfax County is through multiple sites, closer to the ground. A high concentration of cell users and more data intensive applications (text, internet, video streaming) require greater bandwidth. Carriers achieve greater bandwidth through more and more sites situated together and at lower elevations (rooftops and façade).
- While carriers seek more and more sites, the increased location flexibility, provided by new technology, creates a competitive environment that could drive facility rents down.
- The Washington Post (November 30, 2010 – 'Are we Headed for a SMARTPHONE MELTDOWN?) reported the following:
    - Newer devices (the smartphone, for example with internet and video streaming capabilities) consume as much bandwidth as about 100 phone calls, to transmit one video.
    - Cicso, a network technology company, predicts that if smartphone sales continue at the current pace, mobile traffic will more than double every year for the next four years.
    - Carriers are in a race to address the demand of new users and the demand of the technology requirements.

IV. Lease Revenues

As noted earlier, each of the local and federal entities negotiating leases has particular constraints and concerns with which they must negotiate the terms and rents to be received from lessees. A side by side comparison of revenues across entities does not produce truly comparative results. Factors such as lease terms, lease start and renewal points, types of property and equipment, escalator clauses, backup power supplies and subletting among many other variables must be considered in a true comparative analysis.

Fairfax County entities are receiving approximately $2.5 million in lease revenue per year, broken down as follows:

- County Government $ 819,620 – 16 Locations – 49 Carrier Leases
- Public Schools $1,009,048 – 21 Locations – 56 Carrier Leases
- Park Authority $ 684,246 – 16 Locations – 17 Carrier Leases

In total, the three Fairfax County entities responsible for wireless facility leases are managing 53 lease locations and within those locations are 122 carrier arrangements. While each entity has some standard practices and pricing that are shared, almost every location also has a unique set of characteristics. Many of the leases contain clauses to address specific organizational concerns. For example, at fire stations or in parks many facilities are disguised as flag poles or trees. County entities may negotiate with lessees to provide backup power generators to fulfill critical facility needs or conversely the lessee may pay to replace and/or upgrade the county's existing generator. The site specific terms make comparisons solely based on the monthly lease rate difficult.

Some agencies (outside of Fairfax) have taken a more streamlined approach to their leasing arrangements by basically using a simple ground lease format. While this reduces the staff time involved in negotiation and administration, it appears to also significantly reduce the revenue stream. We excluded these examples from our analysis.

Internal Lease Revenue Comparison
In looking at the Fairfax County Government, Public Schools and Park Authority we found a high correlation between rents charged for locations. In all cases around Northern Virginia we understand that the staff responsible for leasing activity has shared information with each other over the years. This information sharing has led to many similarities in lease terms and actual rent strategies. However, this sharing is not indicative of a true market assessment. The growth in rental revenue is roughly approximate to the escalator clauses in the lease agreements. This observation is not intended as a criticism, but rather an acknowledgement of the lack of an independent source for market information. Without a source for market information, government staff has taken the logical approach of sharing information with each other.

The Public Schools is the only Fairfax County entity which has been making consistent use of an outside contractor. This contractor constructs the tower or monopole on School property and then leases space on those structures to carriers. The contractor shares 40% of the lease revenue with the Schools, plus a $25,000 single payment. In examining the gross revenue as reported by the contractor, the monthly rates charged to carriers approximated those charged by FMD, the Park Authority and even the School System in their direct negotiations with carriers outside of the contracted sites.

The general expectation is that a private firm – which is in the market on a full time basis – would have the information and incentive to maximize lease rates. In Schools case, the private contractor's gross revenue rates approximated the rates charged by the government entities independent of that contract. While the contractor brought 14 new locations and 34 carrier leases to the Schools – the revenue from those leases is below what the Schools could receive independently. The contractor may allow more leases to be put in place and managed without significant additional School staff involvement, thereby increasing overall volume. School staff is currently conducting an analysis of their wireless facility leases and preparing a report for their management.

V. External Lease Revenue Comparison

An independent source of information on the market rates for wireless facility leases is not readily available. Non-government representatives from the industry universally acknowledged this lack of independent market data. In discussions with these individuals, some of whom only spoke on condition of confidentiality (and are not listed in the earlier section of this report); they note that the best negotiators are the persons and firms with a large client list. This client list and history then becomes their private internal source of market information and is used in their future negotiations. These persons and firms act as property owner representatives in negotiations with either the tower companies (those that build the structures) and/or with carriers.

The number of property owners willing to offer sites is extensive. The number of firms qualified and capable of building the infrastructure (freestanding towers, poles, or modifications to building exteriors) is much smaller and the number of carriers desiring space on existing infrastructure is approximately eight. With the proportion of property owners to infrastructure companies and carriers being so wide – it is clear that the carriers and tower companies can use the lack of market information to their advantage in negotiating with public entities. It is also clear that private companies representing property owners in wireless facility lease negotiations only need to know the price point for a relatively small number of carriers to negotiate aggressively on the part of a property owner.

In the instances where we were able to view or discuss leases between private parties, the same site-specific factors that complicated comparisons between existing government leases occurred. An additional complication is that property representatives cannot breach their client confidentiality. The market information in their history of leases is their proprietary information and the exact expertise that they effectively sell when acquiring a new client. Since county information is public once a lease is presented to the governing body for approval, county lease details are largely known or available. With the county lease information being public, any prospective lessee knows existing benchmarks from prior leases. Therefore a prospective owner representative or consultant would logically only present examples of their work which exceeds those benchmarks. Likewise carriers will attempt to constrain their payments to those benchmarks, negating normal market lease rate growth.

Industry experts noted that governments, as a whole, are not considered forceful rate negotiators. Since the government negotiators are not in the market on a regular basis, and there are no comparable rates readily available, it is very difficult for government representatives to develop a forceful negotiating posture.

As to whether county leases are significantly behind the industry rate negotiated on private property – the only way to truly determine this would be to access relevant market information through an experienced wireless industry expert and/or test the market through more aggressive pricing.

VI. Conclusion

An analysis of the Fairfax County Government lease rates and terms shows that FMD is producing results in line with other Fairfax County entities (Schools and Parks). Fairfax County as a whole compares well with other Northern Virginia governments. However, none of the governments in the area (local or Federal) have been able to effectively benchmark themselves against the market as a whole. Nor was OFPA able to find a source for this information without the hiring of a consulting firm.

County entities face the same general constraint (lack of market information) when attempting to negotiate the best price for placing wireless facilities on public property. Each entity has found creative and innovative ways to address their organizational concerns, while still obtaining lease revenue. The only way to fully evaluate county lease performance is to acquire industry information.

The following recommendations were reviewed with FMD. The department is in agreement with the recommendations and has initiated efforts to attain the needed information/services.

VII. Recommendations

Lease Rates

The Facilities Management Department (FMD) should consider the services of a wireless industry consultant experienced in representation of site owners and wireless lease negotiation and use this service to evaluate and negotiate new lease requests or lease renewals for an agreed upon period. Such services should be acquired in a fashion that allows the testing of the performance of the consultant through contingency commissions on revenues brought in above what FMD is currently producing.

Please note this recommendation is for contracted industry consultation to supplement and assist FMD with their established lease program, not replace the department as the lease manager. This recommendation is specifically <u>not</u> intended for any build/lease contract arrangements.

Lease Audits

As part of the above contract, if possible, services should be acquired to audit the existing lease sites to ensure the County is being appropriately compensated for expanded antenna placements, carrier footprint expansions and compliance with current lease terms.

Distributed Antenna Systems

This study revealed an industry sector that OFPA expects will dominate the market in the upcoming years: Distributed Antenna Systems (DAS). OFPA recommends that FMD prepare the county for DAS market demand either in conjunction with the contract noted above or through some other contingency based arrangement.

Lease Terms

A lease term review should be part of the services provided by the consultant noted above. OFPA also has a number of lease terms garnered from various entities which appear to merit FMD and County Attorney consideration. After appropriate review, we request that lease term recommendations from the consultant be shared among the three County entities involved in wireless facility negotiations.

The above recommendations have been discussed with the Facilities Management Department and the department has expressed agreement. The FMD will first seek to see if any of these services are available under their existing contracts. For any of the services that are not currently under contract the Department will seek the services through an open and competitive RFP process.

RESERVES REVIEW

I. Scope and Methodology

The Audit Committee asked OFPA to review the status of the County's reserve funds. The committee was interested in knowing more about the nature and purpose of selected reserve funds.

For the purpose of this study, OFPA relied primarily on the County's most recent audited financial statements reported in the fiscal year 2010 Comprehensive Annual Financial Report (CAFR). OFPA also reviewed and analyzed the following documents and reports:

- The County's CAFRs for fiscal years 2007 through 2009.
- The County's fiscal year 2010 Adopted Budget Plan and Carryover Package.
- Board resolutions and other documentation related to the establishment of reserves.
- Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) accounting and financial reporting standards related to reserves.
- Moody's Investor Services credit rating report, dated October 7, 2009.

In addition, OFPA interviewed management and staff from the Fairfax County Department of Finance, Department of Management and Budget, and Department of Solid Waste and Recovery.

II. The County's Reserves are Reported in Separate Funds

The County reports its reserves within the fund balances of four primary funds: (1) General, (2) Special Revenue, (3) Debt Service, and (4) Capital Projects. In simple terms, the "fund balance" represents the difference between assets and liabilities. A fund balance is increased when fund revenues exceed fund expenditures for a fiscal period. Conversely, a fund balance is decreased when fund expenditures exceed fund revenues. A positive fund balance represents a financial resource that is available to cover expenditures in a future fiscal period. A negative fund balance represents a deficit. The overall fund balance is an important measure of a government's fiscal health and is often used by credit rating agencies to determine creditworthiness.

Within each primary fund type (General Fund, Special Revenue, Debt Service, and Capital Projects), the County reports the fund balance in two separate categories - reserved and unreserved. The reserved portion of the fund balance generally represents resources that are in a form that cannot be appropriated and spent, such as inventory, or resources that are legally restricted for specific purposes.

Within the unreserved category, governments may designate or set aside a portion of the fund balance to demonstrate an ***intention*** to use available resources in a particular manner. For example, governments may set aside a reserve in the General Fund for budget and revenue stabilization. A designation is not legally binding, but does convey a government's intent for using its available financial resources.

The unreserved portion of the fund balance represents resources that can be used for any purpose of the fund in which they are reported. According to the Governmental Accounting Standards Board (GASB) [2], the general uses of unreserved fund balances by fund type are as follows:

General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Any purpose.	Any purpose consistent with the restrictions placed on the funds.	Repay outstanding debt.	Finance capital projects.

The County reported the following unreserved fund balances in its fiscal year 2010 Comprehensive Annual Financial Report (CAFR):

General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
$312,087,946	$359,405,143	$12,918,625	$74,003,428

In fiscal year 2010, the County reported a total overall government fund balance of approximately $1 billion. Of the total, $247 million (25%) was reported as "reserved" and $758 million (75%) was reported as "unreserved."

[2] The Governmental Accounting Standards Board (GASB) is an independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

The following table provides a detailed breakdown of the County's fiscal year 2010 fund balances and reserve designations. As shown below, the county designated a portion of its unreserved fund balance for revenue stabilization, emergency needs, budget reserves, and solid waste disposal.

Fund Balance Detail
Fiscal Year 2010

Unavailable (Reserved) Fund Balance	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	TOTAL
Encumbrances	37,153,309	59,252,339	90,461	62,025,867	158,521,976
Long-Term Loans		21,321,841	15,150,000	35,061,144	71,532,985
Certain Capital Projects				16,939,247	16,939,247
Total Unavailable (Reserved) Fund Balance	**$ 37,153,309**	**$ 80,574,180**	**$ 15,240,461**	**$ 114,026,258**	**$ 246,994,208**

Available (Unreserved) Fund Balance	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	TOTAL
Revenue Stabilization	103,827,503				103,827,503
Emergency Needs	68,006,885				68,006,885
Reserves Set Aside for the 2011 Budget	69,040,397				69,040,397
Reserves Set Aside for the 2012 Budget	23,953,143				23,953,143
Audit Adjustments and Reclassifications	6,652,546				6,652,546
Remaining Balance in General Fund (see **Note**)	40,607,472				40,607,472
Dulles Rail - Phase I		90,127,201			90,127,201
Landfill Closure and Post closure Costs		52,141,215			52,141,215
County Transportation Projects		55,687,254			55,687,254
Solid Waste Disposal		33,235,902			33,235,902
Information Technology		31,750,541			31,750,541
Federal/State Grants		18,178,578			18,178,578
Other (Special Revenue)		78,284,452			78,284,452
Debt Service			12,918,625		12,918,625
Capital Projects				74,003,428	74,003,428
Total Available (Unreserved) Fund Balance	**$ 312,087,946**	**$ 359,405,143**	**$ 12,918,625**	**$ 74,003,428**	**$ 758,415,142**

TOTAL FY 2010 FUND BALANCE	**$ 349,241,255**	**$ 439,979,323**	**$ 28,159,086**	**$ 188,029,686**	**$ 1,005,409,350**

Note: According to officials from the Department of Management and Budget (DMB), the $40 million remaining balance in the General Fund was designated in various "Administrative Adjustments" during the FY 2010 carryover review process. These administrative adjustments are detailed in Attachment B of the 2010 Carryover Package, which the County Executive provided to the Board in July 2010.

III. External and Internal Standards Guide Reserves Practices

The standards for reporting fund balances and reserves will significantly change in fiscal year 2011. In March 2009, the Governmental Accounting Standards Board (GASB) issued a new policy on fund balance reporting known as GASB 54. Effective fiscal year 2011, governments will be required to provide more transparency in their reporting of reserves and additional details on the sources and uses of their fund balances. GASB 54 will require governments to expand the transparency when reporting their fund balances through the use of the following categories:

- **Non-spendable fund balance –** amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as an endowment fund).
- **Restricted fund balance –** amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance –** amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- **Assigned fund balance –** amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned fund balance –** amounts that are available for any purpose. These amounts are reported only in the General Fund because unassigned fund balance represents amounts that are not constrained in any way, not even by an intention to use them for a specific purpose.

The County's Department of Finance is responsible for preparing the CAFR and for implementing GASB 54. According to the County's Finance Director, discussions between the Finance Department and the Department of Management and Budget (DMB) are ongoing and preparations for implementing GASB 54 in fiscal year 2011 are underway.

In addition to the standards established by GASB, the Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unreserved fund balance in the general fund. GFOA recommends that general-purpose governments, regardless of size, maintain an unrestricted fund balance of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. In 1999, the Fairfax County Board of Supervisors established a revenue stabilization fund to provide a way to balance the budget without resorting to tax increases and expenditure reductions. The revenue stabilization fund has a target balance of 3% of general fund disbursements. The revenue stabilization fund is separate from the "emergency needs" reserve that the Board established in 1983 to cover expenditures incurred for one-time catastrophic events. The target balance of the emergency needs reserve is 2% of general fund disbursements.

IV. The County's Reserves Practices Impact the Budget Process

Timely and accurate information regarding the County's reserves is a critical component of the budget planning process. Two essential financial tools for budget planning are the CAFR and the budget. However, we noted a lack of consistency regarding the reporting of reserves for the landfill and solid waste funds. As shown in the table below, we found differences between the designated reserve amounts for landfill closure and post closure costs and available fund balance amounts reported in the County's CAFR for fiscal years 2007 through 2010.

Landfill	Reported Reserve Designation	Available Fund Balance	Difference (Available - Reported)
FY 2010	60,644,597	52,141,215	(8,503,382)
FY 2009	61,198,601	54,224,462	(6,974,139)
FY 2008	58,829,096	56,420,024	(2,409,072)
FY 2007	58,772,147	55,676,389	(3,095,758)

Source: Fairfax County Comprehensive Annual Financial Report (CAFR) for fiscal years 2007 through 2010.

State and federal laws governing landfills require counties to report the current and future costs associated with closing landfills. For fiscal year 2010, a consultant determined that $60,644,597 was necessary to cover future closure and post closure costs for the County's landfills. The FY 2010 CAFR reported that this amount had been designated as a reserve to cover landfill closure and post closure costs. However, only $52 million was available in the landfill fund – a difference of approximately $8 million. In addition, we noted differences between the landfill closure reserve reported in the CAFR and the reserve amount reported in the budget. The FY 2010 budget reported that $35 million had been set aside to cover the estimated landfill closure costs – a difference of approximately $25 million between the landfill closure reserve amount reported in the CAFR and the amount reported in the FY 2010 budget.

The County's Finance Director noted that landfill closure and post-closure cost designations are disclosed in the CAFR to show the ability to meet the obligation and the resources dedicated for that purpose. Beginning in fiscal year 2011, Department of Finance staff will consult with the Division of Solid Waste to ensure the appropriate amount is designated for landfill closure costs.

We also noted inconsistencies in how the County reported its reserves for solid waste in its fiscal years 2009 and 2008 CAFRs.

Solid Waste	Reported Reserve Designation	Available Fund Balance	Difference (Available - Reported)
FY 2010	33,235,902	33,235,902	-
FY 2009	-	36,402,036	36,402,036
FY 2008	13,295,099	35,694,189	22,399,090
FY 2007	36,981,843	36,981,843	-

Source: Fairfax County Comprehensive Annual Financial Report (CAFR) for fiscal years 2007 through 2010.

According to the County's Finance Director, Department of Finance staff determined incorrect linking in the CAFR files to be the cause for the past inconsistencies in the reporting of the solid waste reserves. The Finance Director stated that the supporting spreadsheets that are used to report the solid waste reserve amounts were corrected.

V. Credit Rating Agencies Have Commented on the County's Reserves

As discussed in Section I, credit rating agencies evaluate fund balances and reserves when determining the creditworthiness of a government. Maintaining adequate reserves and a high credit rating is important because it helps to ensure that the County can issue debt at the lowest available interest rates and lowest cost. The County currently has the highest credit ratings available for its General Obligation bonds. In a March 2008 memo to the Board, the County Executive noted that the County's revenue stabilization and emergency needs reserve funds had been cited as an important factor in numerous credit rating reports conducted by the three credit rating agencies. One credit rating agency (Moody's) included the following comment in its analysis of the County's budget and reserve practices[3]:

> *Looking forward, [county] management acknowledges the challenge of constructing a balanced 2011 budget given current revenue assumptions and has already begun discussing measures to address the potential budget gap. However, in spite of ongoing budgetary challenges, the county continues its practice of strong budgetary control of spending and a conscientious reliance on a number of self-imposed financial and debt management guidelines. The county board has required the maintenance of General Fund reserves in the 4% to 5% range. While this is modest on a percentage basis, Moody's believes that the county's consistent history of meeting its budget and monthly monitoring, as well as its maintenance of unreserved balances is supportive of this modest level.*

VI. Recommendations

- The Department of Finance should continue efforts to implement new financial reporting requirements (e.g., GASB 54) to improve transparency and accuracy in fund balance reporting and reserve designations.

- The Department of Management and Budget and the Department of Finance should provide a briefing to the Board of Supervisors on the implementation of GASB 54. This briefing should include the transition of fund balances from the existing reporting classifications to the new classifications. A detailed narrative should be provided to the Board of Supervisors as to the significance of the new classifications and how the new categorizations will impact Board flexibility on the use of those funds.

- The Department of Finance should continue efforts to implement procedures to ensure consistent and accurate reporting of designated reserves (specifically, landfill and solid waste) in the County's financial statements.

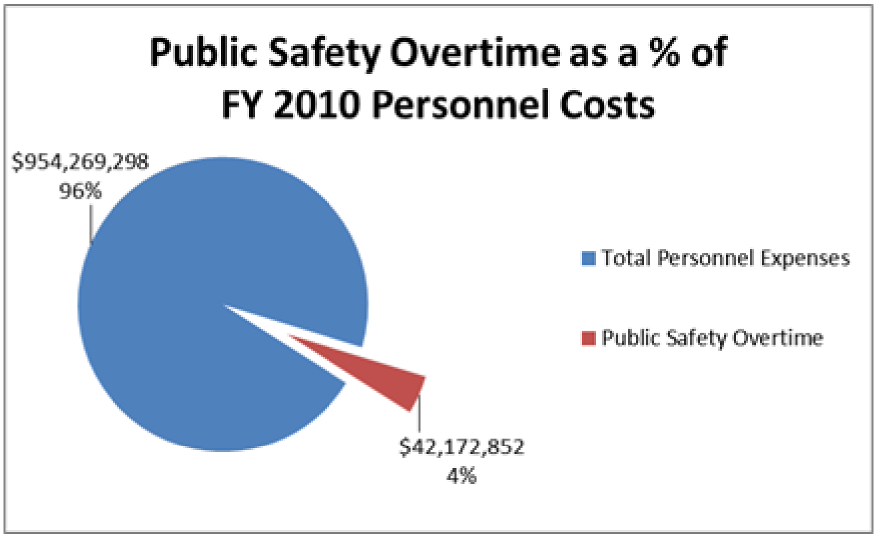
- To the extent possible, the Department of Finance and the Department of Management and Budget should ensure consistency between the County's financial statements and the Budget regarding significant reserve designations and amounts.

[3] Moody's Investor Services, Credit Rating Report – October 7, 2009.

OVERTIME REVIEW

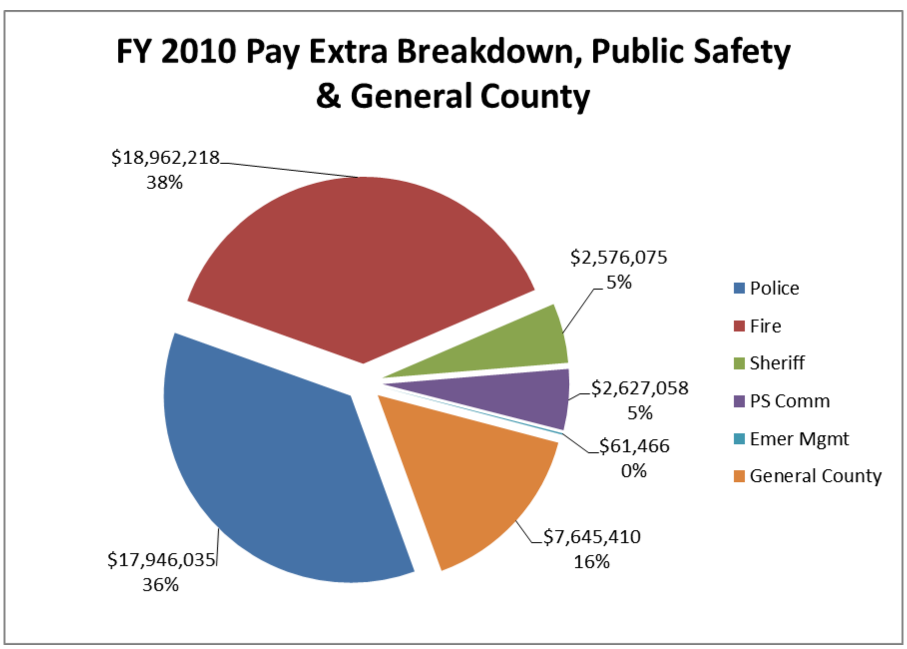
I. Scope and Methodology

The previous OFPA review of County overtime expenditures showed overtime reductions in the amount of $20.3 million countywide from CY 2007 to CY 2009. For this report, the Audit Committee asked OFPA to look at the agencies that have the largest overtime expenditures. Public safety agencies expend the most in overtime. In FY 2010 the County expended approximately $950 million in personnel compensation. Of this amount, approximately 4% or $42 million was expended in public safety overtime.



Source: FY 2010 FAMIS reports provided by the Department of Finance.

The chart and table below illustrate the proportion of overtime expenditures (Pay Extra) in public safety agencies as compared to the rest of the County.



Source: FY 2010 FAMIS reports provided by the Department of Finance.

Overtime is accounted for in county financial systems in a category labeled: Pay-Extra. The Pay-Extra Category of salary includes all overtime and variations of overtime including on-call pay. Agencies use sub-object codes to differentiate between different types of overtime within the Pay-Extra category. The following table shows expenditures in the non-public safety cost centers are a relatively small percentage of the Pay Extra compensation category. This table also shows that while the dollar amounts involved are large, the relation of Pay-Extra to overall compensation as a percent of that total expense is relatively small.

Cost Center With More than $150K in Pay Extra	Amount of Pay Extra	Percent of County Wide Pay Extra	Number of Employees	Percent of Total County Compensation
Public Safety				
Fire	$18,962,218	38.06%	1,465	1.99%
Police	$17,946,035	36.02%	1,730	1.88%
DPSC	$2,627,058	5.27%	204	0.28%
Sheriff	$2,576,075	5.17%	428	0.27%
Emer Mgmt	$61,466	0.12%	12	0.01%
Non Public Safety				
Solid Waste	$1,329,526	2.67%	323	0.14%
Family Svc	$1,098,179	2.20%	1,254	0.12%
Intellectual Disability	$809,878	1.63%	102	0.08%
Mental Health Svc	$746,040	1.50%	415	0.08%
Waste Water	$658,513	1.32%	321	0.07%
Juv & Domestic	$374,042	0.75%	308	0.04%
Facilities Mgmt	$294,497	0.59%	199	0.03%
Health Dept	$274,412	0.55%	526	0.03%
Housing Comm Dev	$267,145	0.54%	44	0.03%
Vehicle Svc	$266,272	0.53%	258	0.03%
Stormwater Mgmt	$261,501	0.52%	139	0.03%
Park Authority	$227,452	0.46%	362	0.02%
Alcohol & Drug	$164,831	0.33%	299	0.02%
Planning Dept	$155,730	0.31%	138	0.02%

Source: FY 2010 FAMIS reports provided by the Department of Finance – This data differs slightly from the PEAQ reports used in charts presented in other sections of the overtime study due to different reporting parameters.

The Fire and Rescue Department (F&R), the Police Department (Police) and the Department of Public Safety Communications (DPSC) had the largest proportions of overtime expenditures in FY 2010 and are the focus of this quarter's report. The Sheriff's Department was excluded from this study since it just completed a process to improve retention and hiring which has, in part, reduced overtime by $5.4 million between FY 2008 and FY 2010.

The overtime study was conducted in two parts:

Part A: Composition of Overtime Expenditures
Part B: Department Policy Controls on Hours

II. Overtime Study Part A: Composition of Overtime Expenditures

In looking at fiscal year expenditures, OFPA first studied the composition of the Pay-Extra Category expenditures in DPSC, F&R and Police. We focused on the most recent complete fiscal year data available, FY 2010. Sub-object codes within the County's financial reporting systems show the hours and dollars associated with each type of overtime in the Pay-Extra Category.

The charts on the following pages include our sub-object code analysis of paid overtime and show the composition of the FY 2010 Pay-Extra Category in DPSC, F&R and Police. The common groups of codes are:

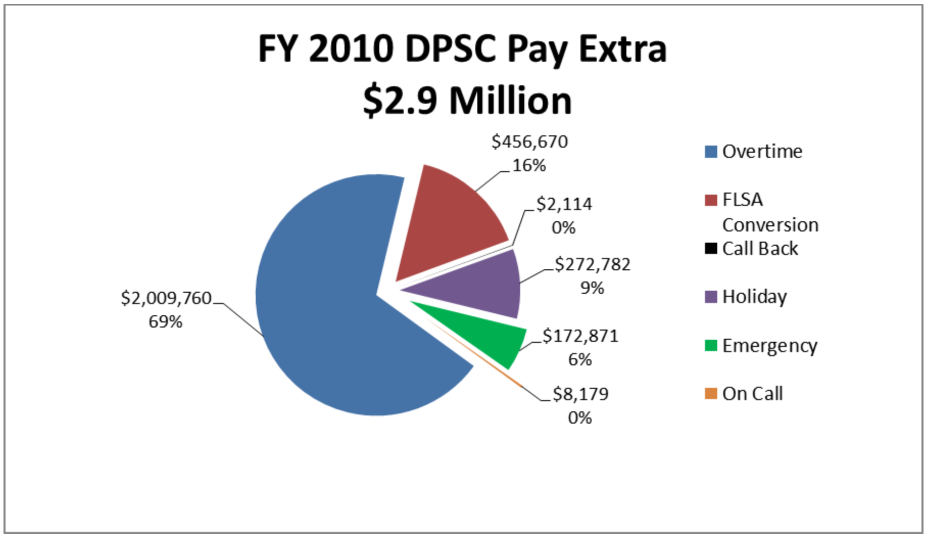
- Overtime – expenditure for regular overtime most often required to complete a critical work task.
- Call Back – expenditure for overtime incurred on an off-duty day; employee called back to service to cover minimum staffing requirements.
- Emergency – overtime expenditures for weather and other large scale events are tracked separately. Most of the overtime incurred in FY2010 in this category was for the historic snow events last winter. OFPA understands that the county continues to work on reimbursement for these costs from federal and state sources.
- On Call – overtime expenditures for the period of time an employee must remain available outside of regularly scheduled work hours.
- Holiday – overtime expenditures for employees working on county holidays
- FLSA Conversion – department expenditure requirement to provide paid compensation for hours worked beyond the federal Fair Labor Standards Act (FLSA) threshold. FLSA provisions require overtime pay for hours worked in excess of the prescribed levels contained in the act and in county personnel regulations.

The County's Department of Human Resources, in Procedural Memorandum 51, describes the county policy related to FLSA compliance. To ensure compliance, the County has elected to pay time and a half the regular rate of pay or time and one-half compensatory time for all eligible hours worked or in paid leave status as follows in the public safety agencies:

- In excess of 40 hours for civilian and DPSC employees in a 7 day work period
- In excess of 212 hours for fire protection personnel in a 28 day work period
- In excess of 80 hours for sworn Police and Animal Control Officers scheduled to work a 40 hour week in a 14 day period

All three agencies studied this quarter were acutely aware of FLSA requirements and the impact of these requirements on compensation expenditures.

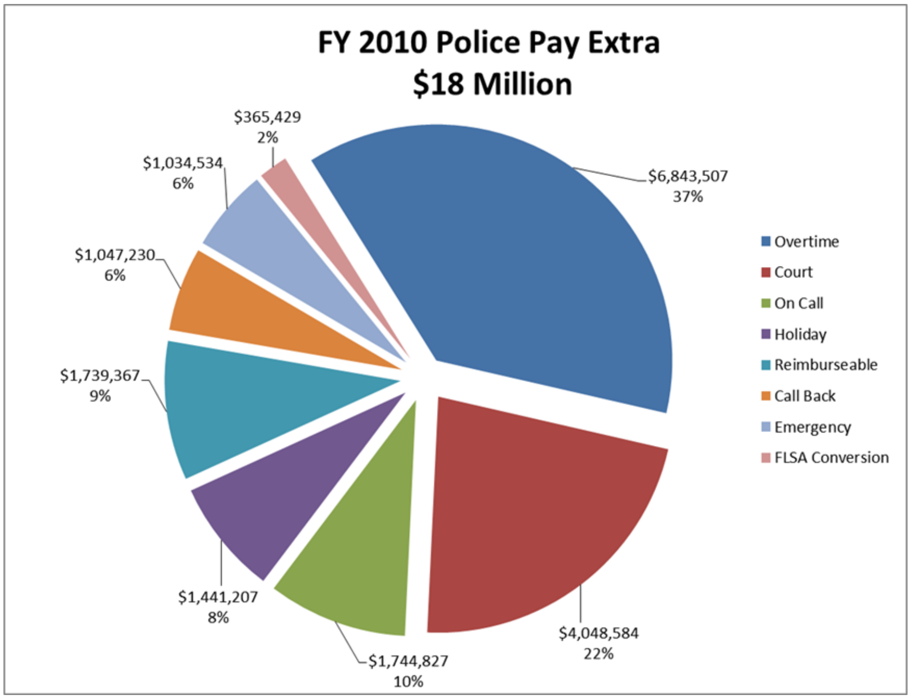
In DPSC, regular overtime expenditures were the largest segment (69%) of the Pay-Extra Category in FY 2010. Later in this report there is further discussion of DPSC's retention and training efforts to assist in meeting minimum staffing requirements. The second largest expenditure of overtime for DPSC (16%) is incurred by FLSA requirements. The FLSA requirements are based on an 8-hour/day, forty-hour/week schedule and DPSC employees work seven, 12.5 hour shifts every two weeks.



Source: Auditor analysis of PEAQ (Point and Click Enterprise Ad-hoc Query) system data for fiscal year 2010.

In the Police Department, regular overtime was the largest category of overtime at 37% of all overtime dollar expenditures in FY 2010. Overtime of this type is largely due to completion of critical work assignments. Overtime incurred by court attendance was the next biggest category at 22%. County policy dictates that employees incurring court overtime be credited with a minimum of 3 hours at time and a half, excluding travel time, regardless of the number of hours actually worked. If more than 3 hours is worked, the employee is compensated for each hour of court attendance. In an effort to reduce Police overtime related to court, Maryland has initiated a process to require those receiving a traffic ticket to schedule court hearings starting in January 2011.

Of note in this analysis is reimbursable overtime (9%). The Police Department was the only agency out of the three studied this quarter to use a specific sub-object code within the Pay-Extra Category to track reimbursable overtime expenditures. While Fire and Rescue incurs reimbursable overtime within some grant projects (for example, the Urban Search and Rescue Team) the Police Department has a significant number of requests for reimbursable police service (outside of grants) and uses sub-object codes in this category to track and bill these expenses. VDOT (for road construction projects) and Fairfax County Public Schools (for football games and other large gatherings) make frequent requests for reimbursable police service.



Source: Auditor analysis of PEAQ (Point and Click Ad-hoc Query) system data for fiscal year 2010.

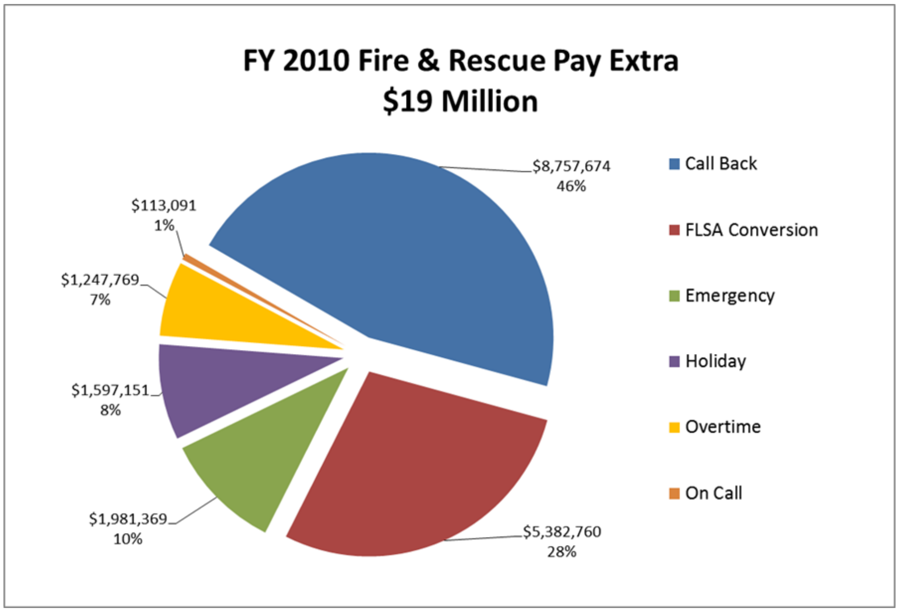
In the Department of Fire and Rescue, expenditures for overtime incurred as a result of Call Back were, by far, the largest category of expenditure in the Pay-Extra Category in FY 2010. F&R finds it useful to track those dollars and hours incurred by employees being pulled back into service to cover minimum staffing requirements. Call Back expenditures far exceed those of regular overtime (7%) indicating the reliance on Call Back overtime to ensure the minimum staffing requirement is met. Also of note in this analysis is the 28% of expenditures attributable to FLSA requirements in FY 2010.

When asked about the large percentage of Pay Extra attributed to Call Back; F&R staff noted that the category of Holiday Pay Extra Compensation at 8% only reflects overtime pay for those employees who work overtime on a holiday. Specifically they noted that by only focusing on the Pay Extra category of holiday compensation, the analysis does <u>not</u> include:

- Compensation uniform field personnel receive for a holiday which falls on their scheduled day off. If included, this would add an additional $2.1 million to the category of Holiday Extra Compensation.
- Compensation in the form of compensatory time for those personnel who choose to take their payment in time versus money. If paid in dollars, it would add an additional $590,000 to the category of Holiday Extra Compensation.

Hence, if the holiday classification was inclusive of all expenditures incurred as a result of a holiday, the Call Back percentage in the chart below would be smaller. If the non-Pay Extra expenditures noted by staff were included in the analysis, the Call Back and Holiday percentages would change to 40% and 20% respectively.

Staff noted that Call Back overtime is generated by the need to fill vacant minimum staffed positions. Position vacancies are a result of several factors including sick leave, injury leave and agency vacancies due to retirements, resignations or terminations. The use of compensatory time earned (in lieu of overtime pay) was also noted as having an impact on total Call Back expenditures.



Source: Auditor analysis of PEAQ (Point and Click Ad-hoc Query) system data for fiscal year 2010.

III. Overtime Study Part B - Department Policy Controls on Overtime Hours

Department of Public Safety Communications

DPSC's minimum staffing levels are formulated to assure that 90% of emergency calls are answered within 10 seconds and 90% of all non-emergency calls are answered within 30 seconds. Forty-one on-duty personnel with the minimal certifications for each position are required to effectively handle the DPSC workload per shift. The 13 call takers, 3 service desk operators, 9 police dispatchers, 6 fire-rescue dispatchers, 3 teletype operators, 3 relief personnel and 4 supervisors work 12.5 hour shifts. Vacancies due to both scheduled and unscheduled leave are filled by staff working overtime.

The DPSC is a relatively new organization and is still building its critical staff levels. An aggressive hiring and training schedule is building capacity within the department that will continue to add flexibility in scheduling and should allow DPSC to continue to reduce overtime. Prior to the end of FY 2009, minimum staffing requirements were supplemented with off-duty police officers and fire fighters - a program called the Supplemental Staffing Program (SSP) that had been in place since 2001. The sunset of the SPP at the end of FY 2009 assisted in the significant reductions made in overtime expenses to date – from $ 5.5 million in FY 2008 to $2.9 million in FY 2010.

The department reports that keeping adequate levels of trained personnel is a challenge mostly due to the time required to get a new recruit hired and trained at the most basic Public Safety Communicator (PSC) I level. Once hired, a new PSC begins a 10 week classroom training academy and then moves on to 10 more weeks of on- the-job training.

The lion's share of tools and monitoring responsibility of overtime are at the operational supervisor level (frontline). Tools at the operational supervisor level to monitor OT include:

- Weekly staffing projection sheets that show minimum staffing requirements in 4-hour blocks for each shift overtime and leave accruals for each 4-hour block.
- Overtime schedule books where employees self-identify availability to work overtime in 4 hour blocks. Employees may sign up for up to 3, 4-hour blocks on an off-duty day (1 full additional shift). Assignments are made by lottery.
- Time and attendance reports
- Overtime approval forms provide additional detail to the type of overtime worked with job number designations. Forms are completed by each employee working overtime and are approved by the supervisor.
- Daily monitoring of individual performance. Lapses in performance can result in suspension from overtime eligibility.

Issues the department identified as impeding management's ability to control and reduce overtime:

- Position vacancies. Training of new employees takes at least 20 weeks. A fully staffed center with trained and fully proficient employees (PSC III) is the ideal. At the time OFPA interviewed DPSC management, 19 vacancies were reported in the Operations Bureau.
- FLSA requirements and personnel regulations. The agency is operating in a 24/7/365 shift environment and must comply with regulations that apply to forty-hour work weeks and 8-hour days.

Fire and Rescue

Fire personnel in the Operations Bureau (stations) work 24 hour shifts. Pay periods are every 2 weeks and correspond to the county payroll schedule. The department uses a leave management system called Telestaff to manage a predetermined number of leave spots for each 24 hour shift. All "riding assignments" on apparatus are made in Telestaff a minimum of 6 working days before the shift. Advance assignments help reduce the necessity for holdover and call back of personnel on dates where identified staff deficiencies exist.

The department maintains a daily list of personnel available to work overtime. Employees update their availability status on Telestaff on a volunteer basis. Vacancies must be filled with the correct professional certifications and are generally assigned to the employee who has not worked overtime for the longest period. Certifications and skill level drive eligibility and the personnel who maintain certifications are usually in higher demand to fill vacant slots.

Some overtime is generated and funded by grant project activities in the department. There are a myriad of grant funding streams that support overtime for employees to work on grant projects on off-duty days. For example, the Urban Search and Rescue Team, the Radio Cache Team and the Incident

Management Team all receive grant funding that reimburses overtime. Employees qualified to work on these teams are limited and the amount of overtime is typically incurred by a small number of employees qualified to perform specific grant duties.

Daily, bi-weekly and monthly reporting tools are used by the department to monitor overtime by frontline supervisors. Bi-weekly, payroll data including hours and dollars is monitored by the Fiscal Services office. On a monthly basis, senior management reviews overtime expenditures by cost center. Job number reports are routinely used also to analyze the type of overtime worked.

Job numbers are also used to track specific types of overtime generators including: Sick leave replacement, Military leave replacement, Family leave replacement and Advanced Life Support minimum staffing. The complexities of the payroll data made developing test parameters very challenging. With dozens of sub-object code categories and job numbers, OFPA chose to isolate the data related to large overtime users. With approximately 30 categories under Pay Extra in F&R, and pay periods which do not coincide with the FLSA conversion, post transaction verification was very difficult. Therefore the importance of frequent monitoring of overtime by F&R staff is critical.

The department noted that scheduled regular overtime is necessary and is generated by training requirements in order to keep required certifications current and performance tests as well as annual physicals up to date. The department must comply with federal and state mandated certification training. Continued education on the newest strategies and techniques as well as the fundamental firefighter and EMS training prepares employees to make critical decisions with sound judgment resulting in favorable outcomes in emergency situations.

Police

Shift lengths vary in the Police Department from 8 to 12 hours. Patrol officers in the district stations work 11.5 hour shifts. There are three shifts: (day work, evening, and midnight). Shifts are fixed and rotate between A and B squads so that each shift works every other three day weekend and work 2-3 days during the week dependent on the rotation cycle.

Policies limiting overtime in the Police Department are found in General Order #340: Off-Duty Employment. Various off and on duty assignments are defined within this General Order. Departmental overtime is defined as overtime that is incurred as a direct result of the employee's duty to complete a critical work assignment (for example, mandatory shift extension, call back or other emergency related events). Off-duty employment that requires the employee to exercise law enforcement authority is referred to as Secondary Law Enforcement Employment. Supplemental overtime is the overtime incurred in providing police services to other agencies or groups.

The Financial Resources Division of the Police Department monitors all overtime on a regular basis to ensure station commanders are not exceeding station allotments. Bi-weekly overtime reports are posted on the Police Department intranet (Bluenet) for all commanders to review and use as monitoring tools for their staff. Division and Station Commanders are also provided with bi-weekly comprehensive overtime justification lists for all employees under their command. The commanders and front-line supervisors are responsible for monitoring overtime at the squad level. The front-line supervisors are also responsible for approval of all scheduled and unscheduled overtime such as investigations, traffic-related incidents, and major events. The hours for all these various types of duties are limited to 16 hours per day and/or 120.5 hours per pay period.

OFPA tested the Police Department pay period policy using the FY 2010 payroll data. In 26 pay periods, covering approximately 1,700 employees and approximately 44,200 time reports, there were only 11 instances of hours that exceeded 120.5 (an hour limit policy contained in General Order #340). All instances were forwarded to the Financial Resources Division of the Police Department for explanation. The explanations were thorough and supported by additional documentation.

The department noted maintaining minimum staffing as the most significant limitation to controlling overtime. Minimum staffing on all patrol squads is necessary to ensure officer safety, citizen safety, reduce response times for critical in-progress events and to adequately respond to calls for service (both in-progress events and routine events). Major crimes and incidents also have an impact on overtime. Homicides, serial cases, highway incidents and weather-related events all require immediate resources and often take several operational shifts to resolve.

The department also reported that federal and state grants and increases in the number of requests for reimbursable overtime have driven overtime hours in recent years. OFPA's detailed review of pay periods during FY 2010 included reimbursable overtime. In FY 2010, 18,971 hours were charged to grants and other reimbursable overtime requests such as charges to VDOT for construction project traffic control and to Fairfax County Public Schools for high school football game security.

IV. Budget Considerations

Overtime is an expense which requires continued monitoring and management. The County budget practice of including a negative amount for position turnover to take advantage of projected unspent salary amounts has been in place for several years. As noted at the beginning of this report overtime in general has been reduced approximately $20.3 million between CY 2007 and CY 2009. During the recent recession the budgeted position turnover was increased substantially, requiring departments to focus on controlling all personnel costs which, included overtime. The public safety departments as a group have managed their personnel costs to a point where they are returning unspent funds in addition to the budgeted position turnover.

Overtime for which management has direct operational control is generally a smaller component of the total overtime or Pay Extra expense category. Overtime related to FLSA conversion, holidays, reimbursements, emergencies and court time are typically more than half of the total Pay Extra expense category.

V. Recommendations

- DPSC should continue its staffing plan to complete the conversion from the Supplemental Staffing Program which was sunset at the end of FY 2009. Completing the build out of the DPSC staffing should permit them to further reduce overtime use and provide more management flexibility.

- Police should monitor the January 2011 changes in Maryland related to scheduling of court dates for traffic offenses. Court related overtime for the Police Department is approximately 22% of the total overtime expense. While it is too early to evaluate the changes in Maryland, similar changes in Virginia would probably require State wide action. If the change is effective in Maryland, a similar savings could benefit the Commonwealth.

FLEET SERVICES

In response to interest expressed by the Audit Committee, we examined the manner in which vehicle mechanic labor time is accounted for by the Department of Vehicle Services (DVS) and whether the Department was using the warranties that were in effect for its newer vehicles. Vehicle maintenance is performed at four separate garages within the County. One facility primarily handles light vehicles, such as sedans and light trucks, two concentrate primarily on medium and larger vehicles such as school buses and fire vehicles, and one primarily repairs heavy-duty vehicles.

I. Vehicle Maintenance

Questions were raised about the time allotted for DVS employees to perform specific types of maintenance on a vehicle. There was a concern that if the time allotted were based on established commercial guidelines, persons who were proficient in routine repairs could exceed the guidelines, enabling them to either leave work early or otherwise avoid additional assignments.

Work is scheduled by the foremen of the garages and the County relies on the expertise of the foremen rather than on a set of established commercial standards to assess the reasonableness of the time it takes to complete an assigned task. The foremen have the practical knowledge of the vehicles serviced at their garages and experience with the time and effort required to complete repairs. When an assignment is completed, an employee is assigned to another vehicle. Employees' authorization to leave work is based on their working eight hours rather than on the completion of a job.

The Assistant Director for Operations at the Department of Vehicle Services explained that reliance is placed upon the foremen rather than on commercial standards for a number of reasons. He said that commercial standards do not exist for work done on most medium to heavy duty vehicles. Additionally, he said the published standards that do exist have a profit factor built into them, which lengthens the time frames and makes them unrealistic for a County facility. The Assistant Director also said that the County needs to place a great deal of emphasis on on-the-job training because the County has difficulty hiring employees who are proficient in areas such as maintenance of diesel engines, air brakes, and large transmissions. He said that any commercial standards that did exist would not take this on-the-job training into consideration.

We noted that within the Department of Vehicle Services, productivity is managed not only by the foremen on a qualitative basis, but also through the analysis of productivity reports generated by a computerized system, referred to as "M4". This system enables DVS to maintain information on each vehicle and produces a number of production reports designed to aid DVS management and garage foremen in monitoring the status of their workload. These productivity reports, which are prepared on a biweekly basis, show each employees' cumulative statistical results for the most recent 26 pay periods and also for the last pay period included in the report. The reports show the hours each employee was available for work, the hours each employee billed to vehicle maintenance or repairs, and the time spent on ancillary activities, such as training, tool and shop maintenance, as well as cleanup. The reports provide a productivity percentage for each employee and enable the Department to identify instances where an employee's performance does not measure up to expectations. These measurements include the time required to complete tasks as measured against the group experience.

The system in place within DVS requires employees to log the vehicle and the task they are performing into a computer which maintains a record of the vehicle, the maintenance or repair activity performed, and the time it took to complete the task. Thus, an employee attempting to defeat the processes and systems put into place by DVS management would have to obtain the assistance of a coworker and probably the complicity of the garage foreman. And, as most of the garages have open service bays, this activity would be apparent to many of the other workers in the facility.

We tested the productivity reports by reconciling the information contained in the reports, which are linked to work completed on specific vehicles, with the time charges that were submitted for payroll purposes for randomly selected employees from each maintenance facility. After examining the records of 16 employees, we determined that the productivity reports accurately reflected the time charges and that management controls at DVS were such that an individual would require the complicity of coworkers and or the shop foremen to defeat them.

II. Warranty Work

Our work showed that the Department of Vehicle Services is availing itself of warranty coverage.

Information obtained from DVS showed that the County owned a total of 6,347 vehicles and that for the 12-month period ended November 30, 2010, there were 1,167 instances where vehicles covered under warranty were taken to a dealer for repair. Although the County does not maintain information on the total number of its 6,347 vehicles that are still under warranty, the number of instances where a vehicle received warranty work is an indication that the procedure is being extensively utilized.

The Assistant Director for operations told us that although warranty information is maintained for each vehicle the County purchases, the total number of vehicles currently under warranty is not readily available. He said that identifying the total number of vehicles is difficult because warranties differ by type of vehicle and also because a particular vehicle might have several different types of warranties. For example, a vehicle could have bumper-to-bumper coverage for a specified period of time, but could have additional warranty coverage on items such as the transmission or on other components.

When it is determined that a warranty defect exists, the garage foremen are to contact the local-franchised dealer and arrange for corrective repairs. Prior to contacting the dealer, DVS consults with the Department that operates the vehicle and determines whether it is cheaper to send the vehicle out for warranty work or repair the vehicle in-house. The Assistant Director for Operations informed us that although a cost comparison is made, it nearly always shows it is cheaper to take advantage of the vehicle warranty.

We also discussed the difference between warranty work and recall repairs. The Assistant Director said that warranty work differs from a recall in that a warranty pertains to a condition on a specific vehicle whereas a recall pertains to a condition on all vehicles of a particular year, make and model. Information obtained from DVS showed that for calendar year 2010, there were 32 recalls involving 627 vehicles, 313 of which were school buses. The Assistant Director said that in some recall situations for school buses, the manufacturer will agree to have DVS perform recall work on a reimbursable basis, thus enabling DVS to avoid transportation costs to and from a dealer for repairs. In 2009, for example, DVS repaired 192 school buses in this manner.

BAIL VIOLATIONS

At our meeting with the Audit Committee in October 2010, we received an inquiry as to whether Fairfax County was collecting the revenue from bail bond forfeitures. We inquired into this matter by contacting officials from the Fairfax County General District Court, the Fairfax County Juvenile and Domestic Relations District Court, the Fairfax County Circuit Court, and the Supreme Court of Virginia. None of the officials we contacted indicated that the collection of bail bond forfeitures was a problem. Also, we learned that there was not a significant amount of money generated by bail bond forfeitures and that the County is not directly involved in the collection process.

The following are three different scenarios under which a bail bond might originate.

1. A surety bondsman writes a guarantee for the amount of bail. Both the bondsman and the defendant sign this type of bond and both are equally responsible. If the person fails to appear, the Court issues a Notice of Bond Forfeiture to the bondsman and the bonding company. After the notice, the bondsman has 150 days to find the defendant or the bond is forfeited. If forfeited, the bondsman has two years to find the defendant and get a refund. According to the General District Court, most bondsmen are backed by an insurance company and will pay the forfeiture fairly quickly once the judgment is entered.

2. A defendant or third party posts a cash bond. If the defendant fails to appear and is the person who has posted the cash bond, it is forfeited. If a third party is involved, such as, for example, a relative of the defendant, a notice of forfeiture is done in the same manner as for a bondsman. The only difference is that if the third party does not produce the defendant, the Court already has the money at the time the bond is forfeited. The third party has a two-year period, just as a bondsman, to produce the defendant and get a refund.

3. The defendant is released on personal recognizance. According to the District Court, if the defendant fails to appear, judges generally try the case in his/her absence. Thus, there is no bond or forfeitures.

Within the Fairfax County Circuit Court, money from bail bond forfeitures is sent directly to the State of Virginia. The Comptroller of the Circuit Court said that for the 12-month period ended July 2010, a total of $128,000 had been sent to the State. At the District Court level, bail bond forfeitures for County-related offenses are combined with the revenue from other fines and forfeitures and transmitted to the County monthly. In fiscal year 2010, fines and penalty revenue paid to the County totaled $6,837,394. Although the County did not have information as to how much of this amount was generated by bail bond forfeitures, information provided by the General District Court indicated that the County received $17,000 from bail bond forfeitures during FY 2010.

The relatively small amount of money available from bail bond forfeitures is not surprising when one considers the nature of the process. If a bail bondsman is involved, he/she is guaranteeing the appearance of a defendant and does not look kindly upon forfeiting the amount of the bond if the defendant does not appear. Also, the fact that a bondsman has 150 days to find the defendant before the bond is forfeited further reduces the potential for forfeitures.

It should also be noted that, within Virginia, the State Corporation Commission's Bureau of Insurance has the authority to take action against companies that do not pay bail bond forfeitures. An official within the Bureau said that under this authority, there is considerable incentive to settle any debt that might arise from forfeiture because the Bureau has the power to suspend an insurance company's license for nonpayment. A suspension would mean that the company would not be allowed to sell insurance of any sort in the State. He also said companies that insure bonds generally operate in more than one county and that an instance of nonpayment would adversely affect the company's status in all of the counties in which it operated. The official told us that in the last 18 months, there have been only about six or eight cases statewide where a payment problem existed. He also said that in those cases, the problem was quickly resolved.

LIST OF ACRONYMS

AICPA	American Institute of Certified Public Accountants
BLS	Bureau of Labor Statistics
CAFR	Comprehensive Annual Financial Report
DAS	Distributive Antenna System
DMB	Fairfax County Department of Management and Budget
DPSC	Fairfax County Department of Public Safety Communications
DTP	Dulles Transit Partners
DVS	Fairfax County Department of Vehicle Services
F&R	Fairfax County Fire and Rescue
FFGA	Full Funding Grant Agreement
FLSA	Fair Labor Standards Act
FMD	Fairfax County Facilities Management Department
FTE	Full Time Equivalent
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
MWAA	Metropolitan Washington Airports Authority
OFPA	Fairfax County Office of Financial and Program Audit
PEAQ	Point and Click Enterprise Ad-Hoc Query System
PPI	Producer Price Index
S&P	Standard & Poor’s (Credit Rating Agency)
WFC	West Falls Church
WMATA	Washington Metropolitan Area Transit Authority
WSA	Wilbur Smith Associates